CITY OF MINNEAPOLIS
MANAGEMENT'S DISCUSSION AND ANALYSIS
REQUIRED SUPPLEMENTARY INFORMATION

This section of the City of Minneapolis' comprehensive annual financial report presents a discussion and analysis of the City's financial performance during the fiscal year ended December 31, 2007. Please read it in conjunction with the transmittal letter at the front of this report and the City's basic financial statements following this section. All dollar amounts are expressed in thousands unless otherwise indicated.

FINANCIAL HIGHLIGHTS

- Assets of the City of Minneapolis exceeded liabilities at the close of the 2007 fiscal year by $1,077,863 (net assets). Of this amount, $87,241 is restricted for specific purposes (restricted net assets) and $1,021,147 is invested in capital assets net of related debt. Additionally, a deficiency $30,525 in unrestricted net assets resulted primarily from other debt issued by the City to finance assets owned by the City's component units, debt related to unfunded pension liabilities, various development related debt, and prior period losses in the internal service funds

- The City's total net assets increased by $149,851. Governmental activities increased the City's net assets by $93,708 and the business type activities by $56,143.

- As of December 31, 2007, unreserved fund balance for the general fund was $53,851.

- The City's total long-term bond and note liability decreased by $75,898 from the prior year. Total bonds and notes issued in 2007 was $57,857 including $1,750 of refunding transactions and total debt retirement was $133,755, including refunding transactions. Major new debt issuances included bonds of $34,055 for various infrastructure improvements in the five-year capital plan, $9,900 for an economic development project and $5,400 for special assessment projects.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements include 3 components; 1) Government-wide financial statements; 2) Fund financial statements; and 3) Notes to the basic financial statements. This report also contains other supplementary information in addition to the basic financial statements.

Government-wide Financial Statements—Government-wide financial statements are designed to provide readers with a broad overview of City finances, in a manner similar to a private-sector business.

The statement of net assets presents information on all City assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The statement of activities presents information showing how net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of these government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or in part a portion of these costs through user fees and charges (business-type activities). The governmental activities of the City include general government, public safety, public works, culture and recreation, health and welfare, and community development. The business-type activities of the City include sanitary sewer, storm water, solid waste and recycling, water works, economic development, and parking.

The government-wide financial statements include not only the City of Minneapolis (known as primary government), but also legally separate entities for which the City is accountable. For the City of Minneapolis, component units are included in the basic financial statements of the City, and consist of legally separate entities for which the City is financially accountable (discretely presented component units) and have substantially the same board as the City or provide services almost entirely to the primary government (blended component units). An example of blended funds is the Board of Estimate and Taxation (BET). Examples of discretely presented component units include the Minneapolis Library Board (Library Board), Minneapolis Park and Recreation Board (Park Board), and the Municipal Building Commission (MBC). In 2007, Meet Minneapolis, the marketing arm of Minneapolis is also reported as a discretely presented component unit.

The government-wide financial statements can be found on pages 24-25 of this report.

Fund Financial Statements—A fund is a grouping of related accounts that are used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate finance-related legal compliance. All of the funds in the City can be divided into three categories - governmental funds, proprietary funds, and fiduciary funds.

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented in governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financial decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balance provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City of Minneapolis maintains 16 individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balance for the General Fund, the Community Planning and Economic Development Special Revenue Fund, the Convention Center Special Revenue Fund, and the Special Assessment Debt Service Fund, all of which are considered to be major funds. Data from the other 12 governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements elsewhere in this report.

The governmental funds' financial statements can be found on pages 26-29 of this report.

Proprietary Funds—The City of Minneapolis maintains two different types of proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City of Minneapolis uses the enterprise funds to account for its Sanitary Sewer, Stormwater, Solid Waste and Recycling, Water Works, Community Planning and Economic Development (CPED), and Parking activities. The City uses internal service funds to account for its property management services, equipment services, business information systems, central stores, engineering lab, outside purchase of asphalt and cement services, city attorney, workers' compensation, unemployment benefits and other payroll related services. Because these services predominately benefit governmental rather than business-type functions, they have been included within governmental activities in the government-wide financial statements. Internal Service Funds are an accounting device used to accumulate and allocate costs internally among the City's various functions.

The proprietary funds' financial statements can be found on pages 30-33 of this report.

Fiduciary Funds—Fiduciary funds are used to account for resources held for the benefit of parties outside of the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the programs of the City.

The fiduciary fund financial statements can be found on page 34 of this report.

(All dollar amounts are expressed in thousands unless otherwise indicated.)

***Notes to the Financial Statements*—**The notes to the financial statements provide additional information that is essential to a full understanding of the information provided in the government-wide financial statements.

The notes to the financial statements can be found on pages 37-77

***Required Supplementary Information*—**In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information.

The required supplementary information can be found on pages 79-82 of this report.

The combining statements referred to earlier, in connection with non-major governmental funds and internal service funds, are presented immediately following the required supplementary information.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Statement of Net Assets:

The City's assets exceeded liabilities by $1,077,863 at the close of the fiscal year ending December 31, 2007, compared to $883,334 at the end of the previous year.

Statement of Net Assets

December 31, 2007

	Governmental Activities		Business-type Activities		Total	
	2007	2006	2007	2006	2007	2006
Current and other assets	$ 533,912	$ 513,724	$ 213,113	$ 140,356	$ 747,025	$ 654,080
Capital assets	946,799	947,923	896,669	939,604	1,843,468	1,887,527
Total assets	1,480,711	1,461,647	1,109,782	1,079,960	2,590,493	2,541,607
Current and other liabilities	193,454	300,528	65,558	69,547	259,012	370,075
Long-term liabilities	854,889	867,137	398,729	421,061	1,253,618	1,288,198
Total liabilities	1,048,343	1,167,665	464,287	490,608	1,512,630	1,658,273
Net assets:						
Invested in capital, net of related debt	492,007	471,115	529,140	541,670	1,021,147	1,012,785
Restricted net assets	54,226	47,526	33,015	33,222	87,241	80,748
Unrestricted net assets	(113,865)	(224,659)	83,340	14,460	(30,525)	(210,199)
Total net assets	432,368	293,982	645,495	589,352	1,077,863	883,334
Total liabilities and net assets	$ 1,480,711	$ 1,461,647	$ 1,109,782	$ 1,079,960	$ 2,590,493	$ 2,541,607

The largest portion of the City's net assets, $1,021,147 reflects its investment in capital assets (e.g. land, buildings, machinery, and equipment), less any related debt used to acquire those assets that are still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investments in capital assets are reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Another portion of the City's net assets represents a deficit in unrestricted net assets of ($30,525), which, if positive, would be used for meeting the City's short and long-term obligations**.** The negative unrestricted net assets balance is a result of prior period losses within the internal service funds and debt obligations that are not offset with capital assets. The nature of the debt obligations include pension contributions, tax increment issued for the Community Planning and Economic

Development Fund ("CPED"), and debt issued on behalf of the City's discrete component units. The City reports the debt, but not the assets related to city's discrete component units.

The remaining balance of the City's net assets, $87,241 represents resources that are subject to external restrictions on how they may be used.

The following table presents the net assets of the Primary government, (the City) and its discrete component units (Park Board, Library Board, Meet Minneapolis, and the Municipal Building Commission):

City and Discrete Component Units

Statement of Net Assets

December 31, 2007

	Primary Government		Discrete Component Units		Total	
	2007	2006	2007	2006	2007	2006
Current and other assets	$ 747,025	$ 654,080	$ 32,254	$ 46,077	$ 779,279	$ 700,157
Capital assets	1,843,468	1,887,527	500,579	489,490	2,344,047	2,377,017
Total assets	2,590,493	2,541,607	532,833	535,567	3,123,326	3,077,174
Current and other liabilities	259,012	370,075	23,629	29,666	282,641	399,741
Long-term liabilities	1,253,618	1,288,198	20,625	12,643	1,274,243	1,300,841
Total liabilities	1,512,630	1,658,273	44,254	42,309	1,556,884	1,700,582
Net assets:						
Invested in capital, net of related debt	1,021,147	1,012,785	488,211	479,390	1,509,358	1,492,175
Restricted net assets	87,241	80,748	789	1,133	88,030	81,881
Unrestricted net assets, restated	(30,525)	(210,199)	(421)	12,735	(30,946)	(197,464)
Total net assets	1,077,863	883,334	488,579	493,258	1,566,442	1,376,592
Total liabilities and net assets	$ 2,590,493	$ 2,541,607	$ 532,833	$ 535,567	$ 3,123,326	$ 3,077,174

As the above table shows, the debt issued by the City for capital assets acquired by the discrete component units are reported in city's column and the related capital assets under the component unit's column.

Statement of Activities

The following table presents the changes in net assets for governmental and business-type activities:

Statement of Activities
For the Year Ended December 31, 2007

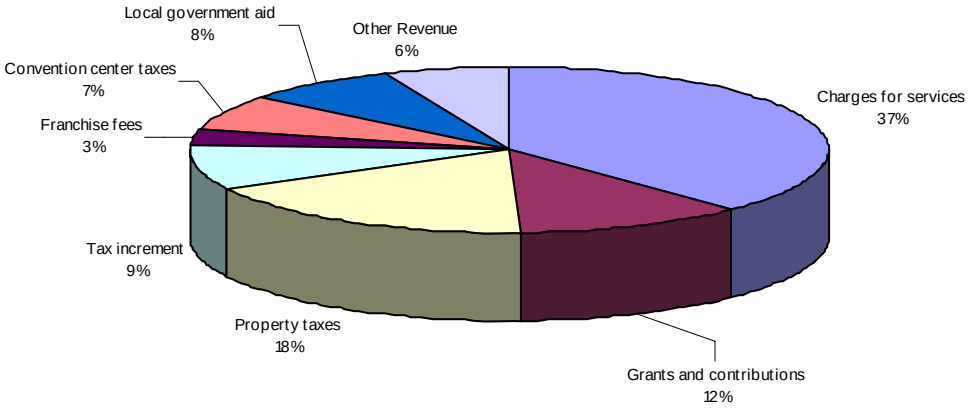
	Governmental Activities		Business-type Activities		Total	
	2007	**2006**	**2007**	**2006**	**2007**	**2006**
Revenues						
Program revenues:						
Charges for services	$ 108,136	$ 116,793	$ 230,461	$ 221,631	$ 338,597	$ 338,424
Operating grants and contributions	84,926	68,894	1,737	13,553	86,663	82,447
Capital grants and contributions	19,174	18,717	-	-	19,174	18,717
General revenues:						
Property taxes	159,878	145,073	-	-	159,878	145,073
Property tax increment	77,979	71,556	-	-	77,979	71,556
Franchise fees	29,548	29,026	-	-	29,548	29,026
Convention center taxes	60,065	56,725	-	-	60,065	56,725
Other taxes	215	188	-	-	215	188
Local government aid	70,712	81,626	-	-	70,712	81,626
Grants & contributions not restricted to prgms	8	9	-	-	8	9
Gain on sale of capital assets	-	-	30,725	-	30,725	-
Interest and investment earnings	17,574	14,407	1,924	1,542	19,498	15,949
Miscellaneous	2,715	2,862	3,187	2,039	5,902	4,901
Total revenues	**630,930**	**605,876**	**268,034**	**238,765**	**898,964**	**844,641**
Expenses						
General government	57,519	67,780	-	-	57,519	67,780
Public safety	226,050	221,160	-	-	226,050	221,160
Public works	80,315	52,267	-	-	80,315	52,267
Culture and recreation	5,279	15,851	-	-	5,279	15,851
Health and welfare	14,325	14,572	-	-	14,325	14,572
Community & economic development	118,066	116,369	6,446	9,035	124,512	125,404
Interest on long-term debt	40,691	89,147		-	40,691	89,147
Sanitary Sewer	-	-	37,696	36,710	37,696	36,710
Storm Water	-	-	24,459	23,815	24,459	23,815
Solid waste and recycling	-	-	26,570	26,554	26,570	26,554
Water works	-	-	52,983	53,209	52,983	53,209
Municipal parking	-	-	58,714	60,097	58,714	60,097
Total expenses	**542,245**	**577,146**	**206,868**	**209,420**	**749,113**	**786,566**
Excess (deficiency) before transfers	88,685	28,730	61,166	29,345	149,851	58,075
Transfers	5,023	416	(5,023)	(416)	-	-
Change in net assets	93,708	29,146	56,143	28,929	149,851	58,075
Net assets - January 1 -restated note 1	338,660	264,836	589,352	560,423	928,012	825,259
Net assets - December 31, 2006	**$ 432,368**	**$ 293,982**	**$ 645,495**	**$ 589,352**	**$ 1,077,863**	**$ 883,334**

Governmental Activities—Governmental activities increased the City's net assets by $93,708, compared to an increase of $29,146 in 2006. Governmental activities are supported by charges for services, grants, and contributions. Additionally, general revenues cover any net expense after program specific revenues are applied. In 2007, the City relied primarily on taxes, various charges for services, and local government aid for funding governmental activities. Specifically, property tax increment revenues supported economic development activities.

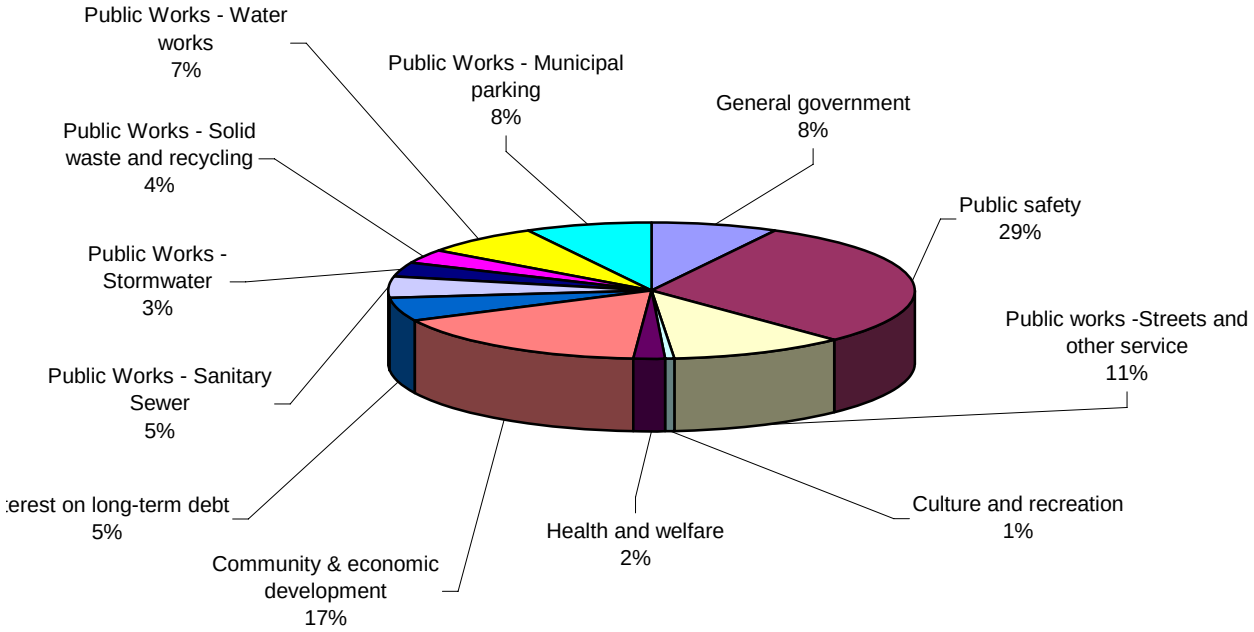
A significant expense in the statement of activities, compared to fund statements, is depreciation. Current year depreciation for governmental activities was $30,105.

(All dollar amounts are expressed in thousands unless otherwise indicated.)

Government-wide Revenues



Government-wide Expenses

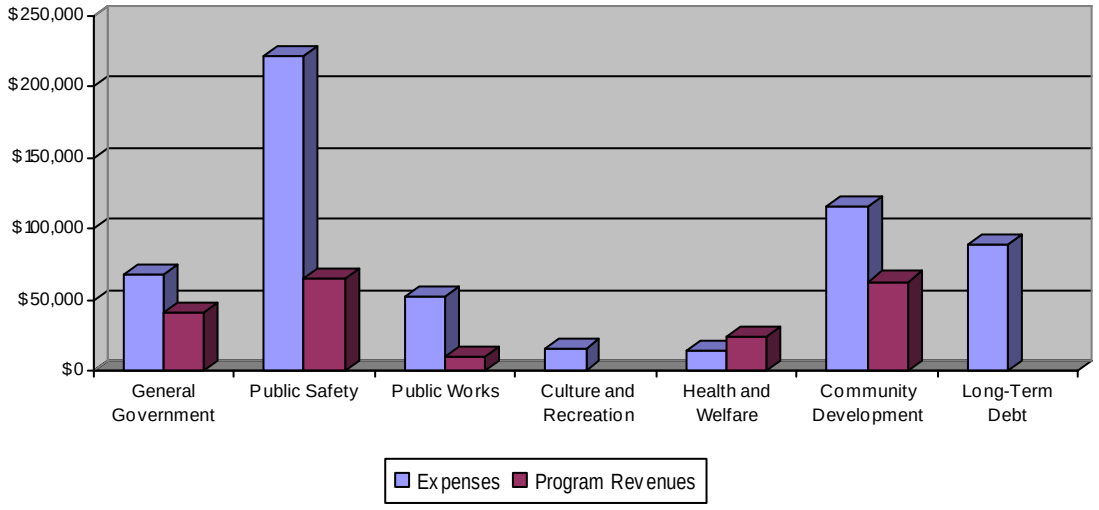


(All dollar amounts are expressed in thousands unless otherwise indicated.)

Summary of expenses and program revenues - Governmental Activities
For the Year ended December 31, 2007

Functions/Programs	Expenses	Program revenues	Net (Expense) Revenue by Program
General government	$ 57,519	$ 55,020	$ (2,499)
Public safety	226,050	54,805	(171,245)
Public works	80,315	21,788	(58,527)
Culture and recreation	5,279	4,477	(802)
Health and welfare	14,325	10,649	(3,676)
Community & economic development	118,066	65,497	(52,569)
Interest on long term debt	40,691	-	(40,691)
	$ 542,245	$ 212,236	$ (330,009)

General revenues and transfers supporting governmental activities	423,717
Change in net assets	93,708
Net assets - January 1 -restated note 1	338,660
Net assets - December 31, 2007	$ 432,368

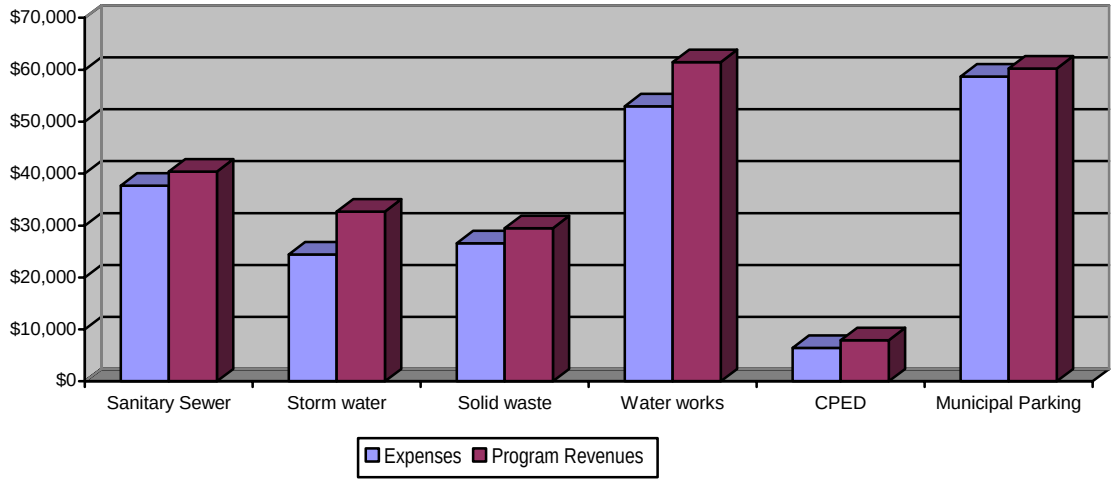


***Business-Type Activities*—**Business-type activities increased the City's net assets by $56,143, compared with an increase of $28,929 in 2006.

(All dollar amounts are expressed in thousands unless otherwise indicated.)

Summary of expenses and program revenues - Business-Type Activities
For the Year ended December 31, 2007

Functions/Programs	Expenses	Program revenues	Net (Expense) Revenue by Program
Sanitary sewer	$ 37,696	$ 40,380	$ 2,684
Stormwater	24,459	32,707	8,248
Solid waste and recycling	26,570	29,510	2,940
Water works	52,983	61,459	8,476
Community & economic development	6,446	7,917	1,471
Municipal parking	58,714	60,225	1,511
	$ 206,868	$ 232,198	$ 25,330
General revenues net of transfers out supporting business-type activities			30,813
Change in net assets			56,143
Net assets - January 1, 2007			589,352
Net assets - December 31, 2007			$ 645,495



FINANCIAL ANALYSIS OF THE CITY'S FUNDS

As noted earlier, the City of Minneapolis uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds—The general government functions are contained in the General, Special Revenue, Debt Service, and Capital Project Funds. The focus of the City's governmental funds is to provide information on near term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financial requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

During 2007, four governmental funds including the General Fund are presented as major funds. These funds include two Special Revenue Funds (Community Planning and Economic Development Fund, and Convention Center Fund), and the Special Assessment Debt Services Fund. At December 31, 2007, the City's governmental funds reported combined ending fund balances of $399,949 a small increase of $8,020 compared with the prior year. Approximately 47 percent of this total

amount ($188,499) constitutes unreserved fund balance, which is available for spending at the City's discretion. The following presents the amounts of unreserved balances by various fund types:

Fund Type	Unreserved Balance
General fund	$ 53,851
Special revenue funds	79,230
Debt service funds	54,226
Capital projects	1,192
Total	$ 188,499

The remainder of the fund balance is reserved to indicate that it is not available for new spending because it has already been committed 1) to liquidate contracts and purchase orders of the prior period ($15,643), 2) to pay for land development and specific projects ($161,093) or 3) for a variety of other restricted purposes ($34,714).

The following tables provide an overview of revenues by source and expenditures by function for all governmental funds:

Revenues by Source

Governmental Funds

	FY 2007		FY 2006		Increase/ (Decrease)
Revenue by Source	Amount	Percent of Total	Amount	Percent of Total	Amount
Taxes	$ 326,187	51.09	$ 300,893	47.92	$ 25,294
Licenses and permits	26,407	4.14	25,838	4.11	569
Intergovernmental revenues	160,384	25.12	175,981	28.02	(15,597)
Charges for services and sales	53,778	8.42	55,112	8.78	(1,334)
Fines and forfeits	9,397	1.48	9,249	1.48	148
Special assessments	13,555	2.12	12,363	1.97	1,192
Interest	19,075	2.99	14,517	2.31	4,558
Miscellaneous revenue	29,626	4.64	34,001	5.41	(4,375)
Total	$ 638,409	100.00	$ 627,954	100.00	$ 10,455

Expenditures by Function

Governmental Funds

	FY 2007		FY 2006		Increase/ (Decrease)
Expendiutres by Function	Amount	Percent of Total	Amount	Percent of Total	Amount
General government	$ 55,581	8.83%	$ 66,803	10.26%	$ (11,222)
Public safety	222,823	35.42%	220,346	33.85%	2,477
Public works	41,892	6.66%	39,171	6.02%	2,721
Culture and recreation	5,279	0.84%	15,851	2.43%	(10,572)
Health and Welfare	14,193	2.26%	14,613	2.24%	(420)
Community & economic development	116,348	18.49%	112,103	17.22%	4,245
Capital Outlay	43,846	6.97%	45,447	6.98%	(1,601)
Debt service - principal retirement	66,744	10.61%	72,768	11.18%	(6,024)
Debt service - interest payment	62,424	9.92%	63,490	9.82%	(1,066)
Total	$ 629,130	100%	$ 650,592	100%	$ (21,462)

(All dollar amounts are expressed in thousands unless otherwise indicated.)

General Fund

The General Fund is the general operating fund of the City. As of December 31, 2007, unreserved fund balance in the General Fund was $53,851, while total fund balance reached $55,245. The fund balance of the City's General Fund increased by $133 during the current fiscal year. As a measure of the General Fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. The year-end fund balance is in compliance with the City's policy of maintaining a minimum fund balance of 15% of the following year's revenue budget for the General Fund.

The following table provides changes in revenues by source from 2006 to 2007:

	General Fund Revenues By Source					
	FY 2007		FY 2006		Increase/	
Revenues by Source	Amount	Percent of Total	Amount	Percent of Total	(Decrease) Amount	
Taxes	$ 150,886	46.35	$ 137,889	42.10	$ 12,997	
Licenses and permits	25,202	7.74	24,938	7.61	264	
Intergovernmental revenues	84,026	25.81	91,614	27.97	(7,588)	
Charges for services and sales	35,902	11.03	38,169	11.65	(2,267)	
Fines and forfeits	8,488	2.61	8,598	2.62	(110)	
Special assessments	4,423	1.36	3,008	0.92	1,415	
Interest	2,780	0.85	907	0.28	1,873	
Miscellaneous revenues	1,066	0.33	1,446	0.44	(380)	
Total revenues	$ 312,773	96.09	$ 306,569	93.59	$ 6,204	
Transfers in	12,736	3.91	20,994	6.41	(8,258)	
Total revenues and other financing sources	$ 325,509	100	$ 327,563	100	$ (2,054)	

In 2007, General Fund revenues and transfers have decreased by about 0.6% from the previous year. Some highlights included:

- Tax revenues increased by $12,997 or 9.4%.
- Intergovernmental revenues decreased by $7,588 or 8.3%, primarily due to a decrease in local government aid.

The following table provides the changes in expenditures by function from 2006 to 2007.

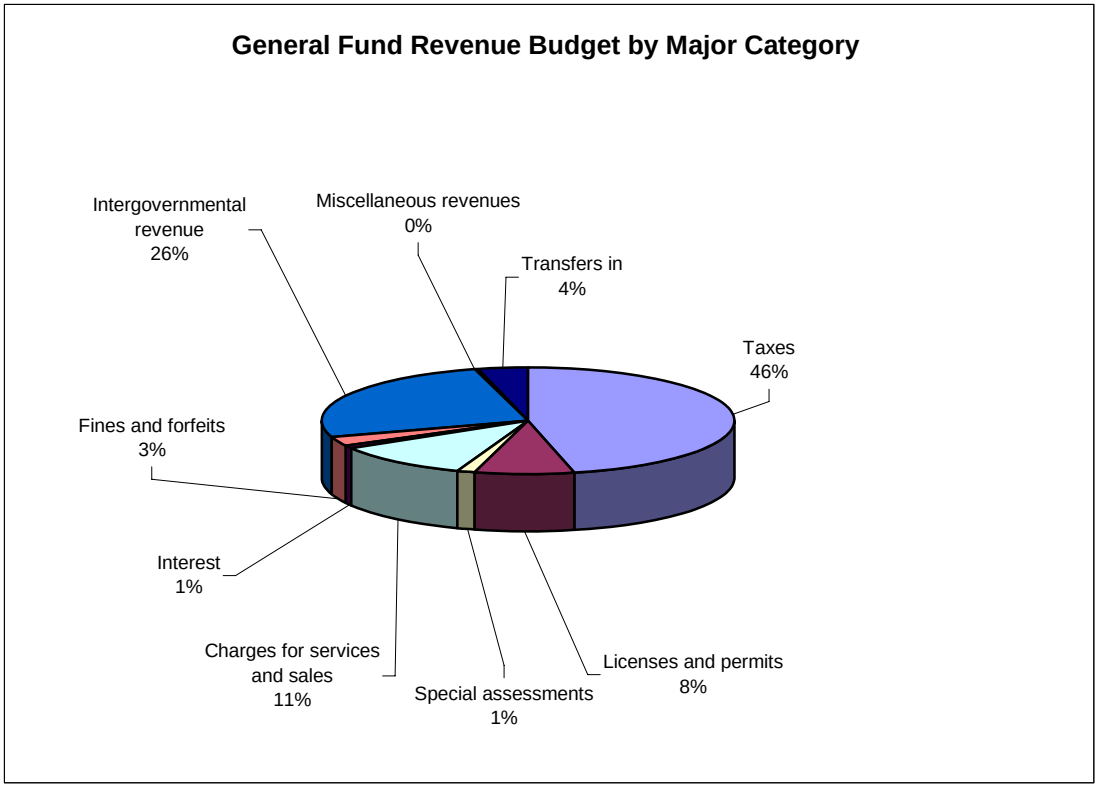
Expenditures by Function	General Fund Expenditures by Function 2007 Amount	2007 Percent of Total	2006 Amount	2006 Percent of Total	Increase/ (Decrease) Amount
General government	$ 48,048	14.77	$ 46,861	14.37	$ 1,187
Public safety	198,652	61.05	193,813	59.45	4,839
Public works	40,569	12.47	38,734	11.88	1,835
Culture and recreation	1,205	0.37	200	0.06	1,005
Health and family support	4,047	1.24	3,693	1.13	354
Community & economic development	3,642	1.12	3,530	1.09	112
Total expenditures	296,163	91.02	286,831	87.98	9,332
Transfers out	29,213	8.98	39,182	12.02	(9,969)
Total expenditures and other financing uses	$ 325,376	100.00	$ 326,013	100.00	$ (637)

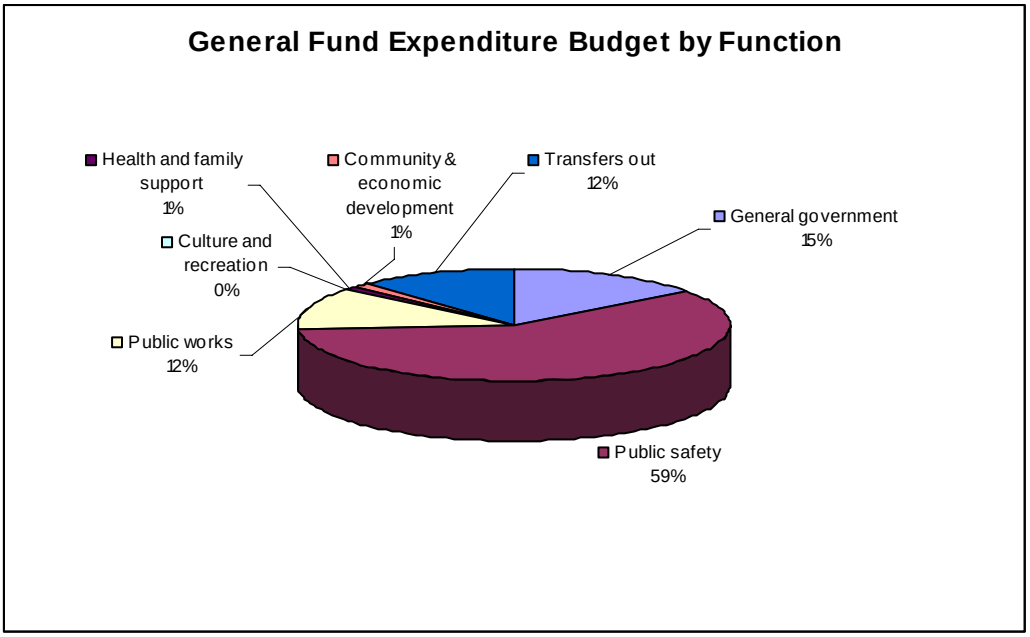
Overall, general fund expenditures decreased by $637 or 0.2% from the previous year. This result was primarily due to the various cost reduction actions adopted by the Mayor and City Council.

General Fund Budgetary Highlights: The final budget for the City's General Fund represents the original budget, any previously appropriated funds set aside for the purpose of honoring legally incurred obligations (prior year encumbrances and commitments), and any additional supplemental appropriations that may occur during the fiscal year. In 2007, the following were significant budget actions:

- $6,300 of 2006 unspent appropriation was carried forward into 2007.
- Police budget was increased by $3,400 to cover overspending. This was primarily due to increased expenditures for overtime, technology, Hennepin County Jail fees, and other contractual services.
- The original General Fund appropriation for fiscal year 2007 was $326,778, which included projected transfers out of $33,806. The final appropriation was $331,755, including transfers out of $29,213. General revenues and other resources were originally estimated at $327,083, which included projected transfers of $19,391. The final revenue estimate was $322,355 including transfers of $11,391

Current fiscal year revenue and expenditure budgets for the General Fund by major category or function are as follows





Community Planning and Economic Development (CPED) Special Revenue Fund

The Community Planning & Economic Development (CPED) Special Revenue Fund accounts for governmental fund proceeds that are legally restricted to expenditures for specific purposes in a series of housing and economic development programs. The range of programs operated within this fund are created to increase the City's economic competitiveness, to ensure an array of attractive housing choices, to support strong and diverse neighborhoods, and to preserve our historic structures. These programs are financed primarily through federal, state, and local grants, tax increment financing, and administrative fees collected for the issuance of housing and economic revenue bonds. A development account program

provides loans and grants to outside organizations within the City to assist commercial and housing development. The program is capitalized with residual equities from development projects and UDAG repayments.

The total revenues of the CPED Special Revenue fund in 2007 were $107,629. 72% of the fund's revenue was derived from property tax increment. The remaining revenue was derived from a variety of miscellaneous sources. The expenditures for the fund in 2007 were $50,945. The fund's expenditures are primarily for contractual services for the housing and economic programs operated within the fund and for the staff costs to monitor and deliver these programs. The level of fund revenues and fund expenditures in 2007 was comparable to the prior year.

In 2007 there was $11,151 of transfers into the fund recorded during the year. Nearly all the transfers were pass-through grant proceeds from other City funds, and from the CPED Enterprise Fund. The fund's transfers out of $67,709 were to provide resources for the debt service of obligations issued by the City for community development programs, and to transfer funds to pay for neighborhood revitalization projects.

At year-end the fund balance of the fund was $224,664; essentially unchanged from the prior year. The unreserved portion of the fund balance at December 31, 2007 was $43,100. The remaining fund balance was reserved primarily for property held for development, encumbrances, or for specific development projects.

Minneapolis Convention Center Special Revenue Fund

Operations of the Minneapolis Convention Center are reported as a Special Revenue Fund in the fund statements. The Convention Center activity is funded from local taxes and Convention Center operating revenues. Local taxes for convention center activities include:

- 0.5 % citywide sales tax;
- 3 % food and liquor tax applied to core downtown establishments;
- 3 % citywide entertainment tax;
- 3 % citywide lodging tax for motels and hotels with 50 units or more.
- Overall tax proceeds for 2007 exceeded 2006 levels by 6% and have achieved 107% of the budget.

Minneapolis Convention Center Tax Revenues

	2007		2006
Taxes	Budget	Actual	Actual
Sales and use	$ 28,394	$ 29,535	$ 27,867
Entertainment	9,382	9,880	9,248
Food	9,525	10,319	9,993
Liquor	3,714	3,757	3,627
Lodging	5,301	6,574	5,990
Total	$ 56,316	$ 60,065	$ 56,725

The total revenues of the Convention Center Fund in 2007 were $76,343 and exceeded 2006 levels by 5% and the original budget by 6%. Much of the increase can be attributed to increases in local tax collections, catering commissions, and increases in services, such as audio visual, cleanup, labor, security, and utilities. For 2007, the Convention center fund's expenditures of $33,686 came in 4% over 2006 levels. Thus, the ending fund balance is $45,918 or $4,696 more than the 2006 level of $41,222.

Special Assessment Debt Service funds

The City of Minneapolis uses special assessment debt service funds to collect special assessments from residents and businesses for public improvements which are wholly or partially paid by the taxpayers. Special assessments are levied and

collected each year via Hennepin County property tax statements as well as through voluntary prepayments and title company remittances upon sale of properties. These improvements are typically related to infrastructure items such as roadway, streetscape and street lighting projects and diseased tree removal on private property.

At the end of 2007, the City had $44,435 of debt outstanding for special assessment improvements, including $5,400 of new bonds issued during 2007 During 2007, the City received debt related assessment collections and interest earnings of $8,207 and paid total debt service of $8,081 special assessment bonds, of which $6,186 was principal repayment.

Enterprise Funds

The City operates six enterprise funds: Sanitary Sewer, Stormwater, Solid Waste and Recycling, Water Works, Community Planning and Economic Development (CPED), and Municipal Parking.

Overall, the enterprise funds had a positive net asset of $664,196 at December 31, 2007. Total net assets for all enterprise funds increased by $57,110 during 2007.

The following table summarizes the total assets, total liabilities, operating income, changes in net assets, and net asset balances for each of the enterprise funds, from 2006 to 2007:

Enterprise Funds
Key Balance Sheet Account Balances and Revenue and Expense Activities
December 31, 2007

							Total	
	Sanitary Sewer	Storm water	Solid Waste & Recycling	Water Works	CPED	Municipal Parking	2007	2006
Assets	93,466	269,550	26,059	256,502	111,059	371,857	1,128,493	1,111,004
Liabilities	7,324	38,291	1,938	101,636	68,939	246,169	464,297	503,918
Operating Income(loss)	753	9,529	2,683	10,594	5,173	13,937	42,669	33,357
Changes in net assets	261	8,033	2,432	10,168	(2,564)	38,780	57,110	29,266
Net Assets	86,142	231,259	24,121	154,866	42,120	125,688	$664,196	$607,086

Sanitary Sewer Fund
The Sewer Rental fund was split in 2005 into two funds, Stormwater and Sanitary Sewer. The Sanitary Sewer fund accounts for the majority of the payments to the Metropolitan Council Environmental Services (MCES) for sewage interceptor and treatment services. It also accounts for the sanitary sewer maintenance and design. Overall, the net asset balance as of December 31, 2007 was $86,142.

Stormwater Fund
The Storm water fund accounts for Storm water activities including the Combined Sewer Overflow (CSO) program. Overall, the net asset balance as of December 31, 2007 was $231,259.

Solid Waste and Recycling Fund
The Solid Waste and Recycling Fund accounts for solid waste collection, disposal and recycling operations. The fund also includes “clean city” activities such as neighborhood clean sweeps, litter and graffiti removal, and litter control in the business districts. City crews provide approximately one-half of the solid waste collection services, while the remaining services are provided through contracts with private operators. The fund reported an increase in net assets of $2,432 for 2007. The fund’s net asset balance at December 31, 2007 was $24,121.

Water Works Fund
The Water Works Fund accounts for the operation and maintenance of a water delivery system for the City and several suburban city customers. The City sells water directly to the cities of Bloomington, Columbia Heights, Hilltop, Golden Valley, New Hope, Crystal, and Edina. Net assets increased $10,168 for the year, resulting in a net asset balance at December 31, 2007 of $154,866.

Community Planning and Economic Development Enterprise Fund (CPED)
The CPED Enterprise Fund operates a series of business-type activities designed to enhance housing options and economic development within the City. Within this fund there are programs that provide low interest home mortgages financed through the sale of bonds. There is also a program in which revenue bonds are issued to finance economic development. The program obtains lease or loan agreements from developers to meet the debt service requirements of the financing. This fund also operates a river terminal facility. Substantially all operating revenues are derived from fees charged to the users of the services provided. The river terminal accounts for the investment in capital assets of the fund.

Net assets decreased by $2,564 during the year. Transfers in the amount of $5,736 were made from the resources generated by the programs of the CPED Enterprise Fund for the benefit of other economic development activities of the City.

Municipal Parking Fund
The Municipal Parking Fund accounts for the operation and maintenance of parking ramps, lots, on-street parking meters, municipal impound lot, and traffic/parking control system. The net asset balance for December 31, 2007 was $125,688, which is an increase of $38,780 from 2006 balance.

A parking fund financial plan was developed to address declining results of operations and cash deficits within the fund. The plan includes a business strategy to address the diminishing use of City parking facilities; updates to aging revenue control equipment; management practices; maintenance to prevent future capital expense; and a strategy to maximize revenue on the existing programs. There were a total of six parking ramps that were sold in 2007 as part of the plan with the proceeds used to pay off existing debt service, and to restore the fund's cash balance.

Internal Service Funds

The City operates six internal service funds: Engineering Materials and Testing; Intergovernmental Services; Property Services; Permanent Improvement Equipment; Public Works Stores; and the Self Insurance fund. Internal service funds charge user fees to recover the cost of operations and accumulate equity for purposes of maintaining the on-going operations provided to the government.

While the financial condition of the internal service funds continue to represent a major financial challenge for the City, key financial management measures taken in 2001 have marked a turning point for these funds. The previous eight years, the financial condition of these funds had deteriorated, reaching a low point at year-end 2000 when the combined net asset deficit had declined to ($54,407). Now at the end of 2007, the combined net assets in the internal service funds has improved to $13,365. This improvement resulted from a change in accounting principle and prior period adjustments of $17,555 in 2001, due to the implementation of GASB Statement No. 34. The restatement recognized assets previously unrecorded within the internal service funds. The remaining improvement of $50,192 can be credited to the deficit reduction plans that the Managers of their respective funds implemented. Another milestone reached is that the six Internal Service Funds have a positive combined cash balance that continues to increase. If the Internal Service Funds continue on this pace of financial recovery, a positive Net Assets will be achieved by all funds by the end of the year 2011.

The following table provides a summary of cash balances, total assets, total liabilities, operating income, changes in net asset and net asset balances for each of the internal service funds:

Internal Service Funds

Key Balance Sheet Account Balances and Revenue and Expense Activities

12/31/07

	Eng. Materials& Testing	Intergovernmental Services	Property Services	Equipment Services	Public Works Stores	Self Insurance	Total 2,007	Total 2,006
Cash	243	114	315	200	9	9,002	9,883	7,911
Assets	323	40,565	37,968	58,157	4,410	11,189	152,612	149,689
Liabilities	127	54,177	10,061	36,443	879	37,560	139,247	152,960
Operating Income(loss)	(29)	(2,835)	(1,624)	802	172	(8,029)	(11,543)	(6,971)
Changes in net assets	(71)	10,152	(674)	3,337	161	3,731	16,636	18,602
Net Assets	196	(13,612)	27,907	21,714	3,531	(26,371)	13,365	(3,271)

Engineering Materials and Testing Fund

This fund is used to account for operations of the City's Engineering Laboratory testing and inspection services along with the purchases of asphalt and ready-mix concrete. In 2003, the City Council took action to indefinitely discontinue operations of the asphalt plant. As a result, the Fund continues to account for the outside purchases of asphalt and ready-mix concrete.

The disposal of assets related to the discontinuation of operations of the asphalt plant was the major contributor to the losses of $229, $104, and $71 in 2005, 2006 and 2007 respectively. Net Assets have been reduced from $267 at the end of 2006 to $196 at the end of 2007.

Intergovernmental Services Fund

This fund accounts for information technology services, central mailing and printing services, and telecommunication operations. In 2003, the fund's beginning net asset balance was restated by $7,866 to reflect corrections made to accurately present the fund's capital assets, accumulated depreciation, and related liability amounts. This positive adjustment reduced the beginning net asset deficit from ($40,850) to ($32,984). A loss in 2003 coupled with net asset increases of $2,307 in 2004, $3,231 in 2005, $10,492 in 2006, and $10,152 in 2007 increases the fund's net asset deficit to a balance of ($13,612). The original deficit reduction plan forecasted that the fund would increase net assets by $3,125 for fiscal year 2007 with an ending net asset balance of a deficit ($33,849). This fund has performed better than projected the last four years.

Property Services

This fund accounts for the City's property and maintenance, including parking ramp maintenance, security, and space and asset management. During 2002, some of the City's properties were transferred to this fund from governmental funds, resulting in additional depreciation expense being incurred. Currently, the Property Services Fund does not have rental and other recovery rates sufficient to fully cover depreciation, which has resulted in a net asset decrease of $674 for 2007. This amount represents a decrease of 2.4% from the 2006 balance of $28,581 to an ending balance in 2007 of $27,907.

Equipment Services

Equipment Services Fund is used to account for the City's fleet of vehicles and related equipment and accessories. The fund reported an increase in net assets of $3,337 in 2007, or 18.2%, and closed the year with a net asset balance of $21,714. The updated deficit reduction plan forecasted an increase in net assets of $3,593 with an ending net asset balance of $22,621. The fund has increased net assets by $2,137 in 2004, $2,974 in 2005, and $3,338 in 2006 and is tracking close to the deficit reduction plan.

There is an incentive for the customer to take care of the equipment or vehicles in the newly devised plan implemented in 2004 which charges actual expenses related to their vehicles. Procedures have been refined in 2007 in order to account for the multitude of transactions in a more efficient manner.

The updated Deficit Reduction Plan for this fund eliminated the sale of bonds to support the equipment purchases in 2006.

(All dollar amounts are expressed in thousands unless otherwise indicated.)

Public Works Stores
This fund accounts for the centralized procurement, warehousing, and distribution of stocked inventory items, and the purchase of special goods and services. In addition, this fund stores an inventory of traffic signal components for assembly for Public Works-Transportation. For 2007, the fund reported a net asset increase of $161 with an ending net asset balance of $3,531.

Self Insurance
This fund accounts for employee medical, dental, and life insurance benefits programs, occupational health services, severance payments, tort liability program, workers' compensation program, and the related administrative costs. Net assets increased $3,731 in 2007, which benefited the fund's net asset position by reducing the total net asset deficit balance to $26,371 at year end. The original deficit reduction plan, adopted in 2003, began with an ending net asset deficit of $40,983 and forecasted a 2007 ending net asset deficit of $27,877. Beginning in 2003, the fund's net assets have increased $3,004 in 2004, $1,940 in 2005, and $5,937 in 2006. The 2007 cash balance for the fund is $9,002 with a due from other funds of $2,000. The deficit reduction plan predicted a 2007 cash balance of $3,778. The actual performance of the fund over the past four years compared to the deficit reduction plan resulted in a net asset balance that is ahead of plan and a cash balance that is significantly increased over the plan's forecast. In 2006, the City Council adopted a one-time use of General Fund reserve of $3,082 to assist in the reduction of bond debt. At year end 2007, the total bond debt is $1,060 a reduction of $320 from the debt balance of $1,380 at year end 2006.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets:
The City's investment in capital assets for its governmental and business-type activities, as of December 31, 2007, was $1,843,468 (net of accumulated depreciation). This investment in capital assets includes land, buildings and systems, improvements, machinery and equipment, roads, highways, and bridges. The total decrease in the City's investment in capital assets for the current fiscal year was 2.5% (a 0.1% decrease for governmental activities and a 4.6% decrease for business-type activities).

The following table summarizes capital assets for governmental and business-type activities for 2007 and 2006:

Capital Assets (Net of depreciation)

	Governmental		Business-Type		Total	
	2007	2006	2007	2006	2007	2006
Land and easements	$ 111,084	$ 111,632	$ 127,328	$ 135,076	$ 238,412	$ 246,708
Infrastructure	103,593	115,614	247,844	252,235	351,437	367,849
Construction in progress	272,531	250,992	95,029	88,423	367,560	339,415
Structures and Improvements	399,605	407,318	420,652	456,492	820,257	863,810
Equipment	59,986	62,367	5,816	7,378	65,802	69,745
Total	$ 946,799	$ 947,923	$ 896,669	$ 939,604	$1,843,468	$1,887,527

Major capital asset transactions and events during the current fiscal year included:

The sale of six of the City's parking ramps. These were 10th and Washington ramp which was sold on September 28, 2007 and the Center Village Municipal Parking Ramp, the Downtown East Ramp, the Seven Corners Ramp, the Loring Ramp and the Gateway Ramp on October 25, 2007 for $64,800.

Additional information on the City's capital assets can be found in Note 4 on pages 55-57 of this report.

Long-term debt. As of December 31, 2007, the City had total long-term bonds outstanding of $1,199,369 compared to $1,273,742 in the prior year. Of this amount, $833,691 related to governmental activities and $365,678 related to business activities. The City had $220,040 or 18.3% of the outstanding bonds in variable rate mode at year-end. In addition to bonded debt, the City had $89,922 of long-term revenue notes outstanding at December 31, 2007, of which $22,734 related to governmental activities and $67,189 related to business activities.

The table below shows various classifications of the City's bonded debt at December 31, 2007 and the amount of principal due in 2008.

Summary of Outstanding Bonded Indebtedness	Balance 1/1/2007	Additions	Retirements	Balance 12/31/2007	Due in 2008
General Obligation (GO) Bonds:					
Property Tax Supported GO Bonds	$ 260,815	$ 14,444	$ 26,954	$ 248,305	$ 20,355
Self Supporting GO Bonds	250,345	-	7,945	242,400	8,425
Special Assessment GO Bonds	44,571	5,900	6,036	44,435	5,611
Tax Increment GO Bonds	178,325	-	12,115	166,210	13,490
Internal Service Fund Related GO Bonds	83,715	1,450	9,130	76,035	5,145
Enterprise Fund Related GO Bonds	332,230	17,660	47,907	301,983	31,304
Total General Obligation Bonds	1,150,001	39,454	110,087	1,079,368	84,330
Revenue Bonds:					
Economic Development Revenue Bonds	65,756	1,750	11,200	56,306	10,659
Other Community Development Related Bonds	57,985	13,090	7,380	63,695	2,845
Total Outstanding Bonds	1,273,742	54,294	128,667	1,199,369	97,834

The City maintained a "AAA" rating from Standard & Poor's and Fitch Ratings and an "Aa1" rating from Moody's for its general obligation debt throughout 2007.
Additional information on the City's Long term debt can be found in Note 5 on pages 57-62 of this report.

HISTORICAL AND LONG-TERM FINANCIAL PLANNING

The Mayor and City Council continue to take a long-term view of the City's finances. The following areas are those with the most significant future costs:

- The City's long-term financial plans have been adopted for the internal service funds to increase net assets and to attain a positive cash balance. These plans have consistently achieved the established goals ahead of schedule, and were updated recently to reflect this progress.
- Like other jurisdictions, employee wages and benefits make up over 60 percent of the City's general fund expenses, increases to which are driven by rapid growth in healthcare costs. Since the wage policy was adopted in 2003, the City's wage increases were limited to 2%. Recently, the City has developed a strategic approach to compensation, culminating in the recent adoption of a compensation philosophy.
- In 2000, Minneapolis voters approved a levy to build a new Central Library and fund improvements to community libraries. Effective January 1, 2008, the Minneapolis Public Library System merged into the Hennepin County Library System. The County will be responsible for operating costs for the libraries in future years. Under the financial agreement, the City will issue debt as defined in the City's adopted capital plan and will be responsible for a declining share of operations through 2017.
- Minneapolis has faced significant pressures due to reductions in Local Government Aid (LGA) it receives from the state, which began in 2003. Future reductions to this revenue source may result in additional service reductions.

Increased pension costs associated with the City's three closed pension plans – the Minneapolis Employee Retirement Fund (MERF), Minneapolis Fire Relief Association (MFRA), and Minneapolis Police Relief Association (MPRA) – continue to

have a significant impact on the City's budget. The City's contributions to these funds have continued to increase in recent years due to increasing obligations to plan recipients under state statute and fund directives, although the impact has been mitigated through legislative changes and through aggressive debt management.

The City issued $61,000 in bonds in 2002-03 due to a provision in state law, called the "liquidity trigger" which, upon an employee's retirement, required the City to transfer enough money from the employee's contributions and City funds from the active fund of MERF into the retired fund to pay the employee's and his or her survivor's entire expected retirement benefits. This provision was removed in 2007, which allowed State aid to function as originally intended – to fully fund the retired fund by 2020 – and to allow more time for investment returns to assist in financing these large payments.

Before removal of the liquidity trigger, the expected City-only contribution from 2007 to 2022 was $101,000 (as calculated by the City's consulting actuary). Eliminating the liquidity trigger decreased the City's overall projected contribution to $56,600 over the same 16-year period – a $44,400 decrease. No additional bonds are expected to be issued for this fund.

The MPRA's pension costs will continue to increase due to the growth in payments made to beneficiaries, negative performance of the stock market as reflected in the actuarial assumptions and changes to the mortality table. Although the City issued a total of $53,300 in bonds in 2002-04 to finance these increases, no additional bonds are expected to be issued for this fund.

The MFRA, although previously 100 percent funded, has experienced a reduction in its funding levels primarily due negative performance of the stock market as reflected in the actuarial assumptions and changes to the mortality table. The City issued $4,740 in bonds in 2004 to cover these shortages, though no bonds were issued for this purpose in 2007 because the City proactively budgeted for these shortfalls. The MFRA's pension costs are also increasing due to growth in payments made to beneficiaries. No additional bonds are expected to be issued for this fund.

Budget planning efforts conducted since 2003 collect all demands on the property tax into a ten-year projection. As part of this planning, the Council adopted a property tax revenue policy, effective in 2003, which limited the total annual increases for the City's property tax revenue to a maximum of eight percent. Half of this increase was dedicated to the City's debt payments for increased pension obligations, internal service fund deficits, and increased library capital projects as called for in a voter-approved referendum in 2000. The other half of the increase was for the increasing cost of providing existing services. This policy was also adopted by the City's Board of Estimate and Taxation. Within the overall policy is a provision that limits the annual operating increase for the Minneapolis Park Board to four percent over the prior year. These policies remained in place.

In January of 2003, the Mayor and City Council adopted a five-year financial direction and a commitment to long-term business planning. This direction established resource constraints within which departments were to prepare business plans for providing services with reductions in funding growth. The combination of reduced spending and limited growth in property tax revenue addressed the City's existing challenges. The City adopted a two percent cap on annual wage increases for City contracts, which was replaced with a compensation philosophy in 2007. The compensation philosophy links salary increases to strategic workforce needs and does not anticipate pattern settlements. (Prior to the 2% wage policy, pattern settlements at the City took the form of the first contract settlement setting the percent increase for all other contract settlements).

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

Budget Outlook:

The City's future financial outlook is strong. The City has financial policies in place to help address funding pressures including personnel costs, pension obligations, and internal service fund debt. With the 2008 budget, the City adopted a revised five-year financial direction. Specifically, growth in salary and wages were budgeted at two percent. Health insurance costs increased ten percent from the 2006 amount to 2007, with costs increasing from $40,000 to $44,000. $51,600 is budgeted in 2008 for health insurance costs. The five-year financial direction includes an average 18% annual health insurance cost increase through 2012.

The City continues to proactively manage its pension liabilities. With obligations of approximately $328,400 in through 2027, the City issued bonds in 2002-04 and used one-time funds to meet its pension obligations. The 2008 budget includes

$10,200 in property tax support for pension expenses. Due to sound financial management, the City does not anticipate a need to bond for pension costs in 2008.

Although the City continues to have a deficit in its internal service funds, future budgets will continue to address these deficits through Council-adopted workout plans. The 2008 budget includes an additional $2,200 in funding for internal City services: self insurance (*e.g.*, workers compensation and general liability insurance), and information technology services.

Economic Outlook and Tax Trends

Minneapolis has historically had a strong commercial and industrial tax base. For taxes payable in 1997, Minneapolis commercial and industrial property provided 56% of the total tax revenue for the City with the downtown Central Business District (CBD) alone providing almost 40%. For taxes payable in 2008, commercial and industrial property declined to 34% of the City total with the CBD providing approximately 24%. Corresponding percentages for residential property (defined as 1-3 dwelling units) show that this class provided 32% of the City's taxes in 1997; it is estimated that this proportion will grow to 57% of taxes payable in 2008.

The Minneapolis real estate market ending in December of 2007 was mixed. As a result of sub-prime lending practices and high inventories of available homes for sale, residential values declined three to five percent overall in Minneapolis. The City was shielded from the impact of this due to the phase-out of the limited market value provisions. The commercial/industrial real estate market in the CBD continued to improve with five to seven percent growth in 2007. Commercial/industrial values outside the CBD were relatively flat after several years of sustained growth. For property taxes payable in 2009, the commercial/industrial share of taxes is projected to increase slightly, which is a reversal over prior years' tax burden trends. This shift reversal from residential to commercial/industrial, while insignificant compared to the shift in tax burden onto residential property since 2001, should provide some relief for residential property owners in 2009. These factors were considered in preparing the City's budget for the 2008 fiscal year.

Downtown Office Space—Vacancy Rate:

Because of the importance of real estate taxes as a source of local government revenue, real estate statistics are an important economic gauge for municipalities. Several commercial real estate companies compile and report real estate statistics. Colliers International reports on local real estate conditions quarterly. Collier's statistics indicate a slight increase in vacancy rates in the Minneapolis CBD. Compared to the first quarter of 2007, the vacancy rate in the CBD has increased from 16.3% to 16.5% in the first quarter of 2008.

Employment:

The seasonally-adjusted unemployment rate for the City of Minneapolis at the beginning of 2008 is 4.3% according to the Minnesota Department of Employment and Economic Development. This economic indicator is on par with comparisons including the State of Minnesota (4.5%) and the national unemployment rate (4.9%).

REQUEST FOR INFORMATION

This financial report is designed to provide a general overview of the City of Minneapolis' finances. Questions concerning any of the information provided in this report or the requests for additional financial information should be addressed to the City's Finance Officer at The City of Minneapolis, 350 South Fifth Street, Minneapolis, Minnesota, 55415. The annual financial report is also available on-line at www.ci.minneapolis.mn.us.

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